SOUTHWARD ENERGY LTD.

1990 ANNUAL REPORT

SOUTHWARD ENERGY LTD.

Notice of Annual Meeting

The Annual General Meeting of the shareholders of Southward Energy Ltd. will be held at the company's head office located at Suite 330, 1201 - 5th Street S.W., Calgary, Alberta on February 28, 1991 at 9:00 a.m.

SOUTHWARD ENERGY LTD.

Highlights of 1990

(Thousands of dollars, except per share information)

Financial	**1990**	1989
Net Income (Loss)	**430**	(227)
Cents per share	**15**	(9)
Capital Expenditures	**465**	311
Total Debt	**564**	867
Annual Production		
Oil and NGL production (mbbls)	**4**	17
Natural gas production (mmcf)	**235**	45
Landholdings		
Thousands of gross acres	**17**	17
Proved Reserves		
Oil and NGL's (mbbls)	**66**	121
Natural gas (bcf)	**3.8**	2.0

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To the Shareholders

Southward's 1990 fiscal year was a period of significant accomplishments. Marked financial improvement generated new interest in the company by the investment community.

The company recorded $1,000,000 in revenue resulting in per share earnings of 15 cents. This significant improvement in profits facilitated capital expenditure increases by 50% over 1990 and debt retirement of over $300,000 during the year. Shareholders' equity illustrated a noteworthy improvement of 17 cents per share for the year.

Many new shareholders became associated with Southward during 1990 resulting in over 2.4 million shares of Southward Energy trading on the Alberta Stock Exchange with a high value of 64 cents per share. Sale by the company of 700,000 treasury shares during the year created additional liquidity for the shares of the company. By our fiscal year end, our trading float had been reduced to a very acceptable position.

In June, 1990 Southward secured an equity financing with CMP 1990 Resource Partnership and Company, Limited (CMP) to fund a portion of its winter 1990 drilling program. Under this financing Southward will issue 357,000 common shares to CMP securing $214,000 in exploration funds at a net issue price of 60 cents per share. At the time the company entered into the CMP agreement, it correspondingly reduced potential dilution of equity by retraction of 365,000 shares of warrants and options. This was accomplished through the cooperation of certain warrant holders and management individuals.

Southward continues to position itself in many different geographic areas in the Western Provinces for development opportunities. During the 1990 fiscal year Southward increased its reserve base by over 36% as expressed in equivalent barrels. We expect to realize large reserve base increases with development and exploration over the next twelve months. Your management continues to pursue new natural gas opportunities to expose the company to the ever strengthening and expanding natural gas demand in Canada and the United States.

Although the company continues to take an aggressive approach to natural gas exploration, management is not overlooking crude oil opportunities. During January, 1991 Southward was participating as to a 20% interest in an oil prospect in Northern British Columbia.

Management's 1991 mandate will be to diversify Southward's production operations in order to reach an equal contribution of natural gas and crude oil sales.

On behalf of the Board of Directors

R W Kiser

Richard W. Kiser
President

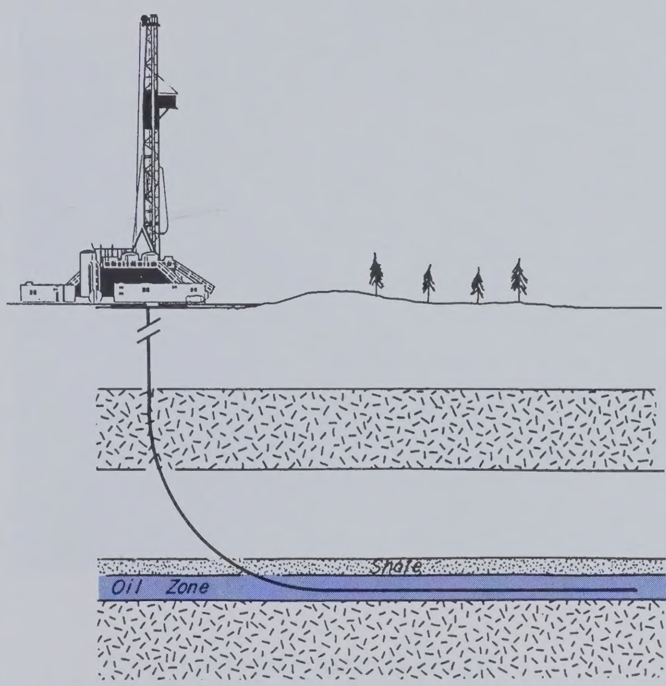
Operations Review

Canada

Southeast Saskatchewan

Following the sale of 40 barrels of oil per day (BOPD) of company production in the Willmar area of Saskatchewan, Southward participated as to an 8.125% interest in the completion of an oil well on its remaining lands in the Willmar area. The well is currently producing at allowable rates approximating 90 BOPD increasing Southward's daily oil production to 20 BOPD from this field.

It is still planned to drill a horizontal well through the heart of our productive lands at Willmar. Drilling operations were forecasted for October, 1990 but were delayed due to regulatory complications suspending most horizontal well activity in Saskatchewan. We now await new provincial legislation (expected during March, 1991) to facilitate the drilling of this well. If an allowable daily rate of 500 - 600 BOPD can be obtained under the new regulations, the well will be drilled in the second quarter of this year. The company's participating interest in this well will be 8.842%.



North Central Alberta

During the fiscal year Southward was involved in the drilling of two wells in North Central Alberta resulting in one dry hole and one gas completion. The company also completed and placed a gas well on production during the year in which it owns a royalty interest before payout reverting to a 25% working interest after payout.

During 1990 Southward acquired a 12.5% interest in a shut in natural gas well in the Cross Lake area. Subsequent to year end Southward farmed in on the balance of the ownership in this multi zone sweet gas well. During November 1990 the company completed the well and is currently constructing a pipeline for gas sales from the property.

North Central Alberta (cont)

The initial production rate of this well will approximate 2 million cubic feet (MMcf) of gas per day yielding net cash flow to Southward estimated at $35,000 per month.

Southward and its 50% partner are mobilizing to conduct an extensive seismic program on 5 1/2 sections of company owned or controlled lands adjacent to this gas well. This program could lead to the drilling of up to 4 wells depending upon the results of the seismic program. Our average working interest in these wells should approximate 50%. Additionally, a 100% working interest in an existing gas well on adjacent lands may be earned by the company by completing and testing this well.

Southward has a ready gas market for reserves established in this area.

Central Alberta

During the year the company acquired an additional 50% working interest in a shut in gas well in the Chauvin area. The company's significant interest in this well (90%) now provides management with incentive to pursue the sale or tie-in of this property containing in excess of 1 BCF of natural gas reserves.

Southern Alberta

During the year a Glauconite gas well in Enchant Alberta reached payout and began to produce to the company's account. This well, which is capable of stabilized production rates in excess of 4 MMcf of gas per day, is currently restricted by transportation to production rates on the order of 2.5 MMcf per day. When transportation is sufficient to allow the well to produce at its capability, it is forecasted that this property will contribute over $10,000 per month in cash flow to Southward's 10% interest

United States

During the year the company divested itself of its nominal United States production illustrating management's efforts to streamline the operations of the company. The company has no further interest in the United States at this time.

Management Discussion and Analysis of Financial Results

Revenue

Revenue from the sale of oil and natural gas, before royalties, totalled $495,000 in 1990, up 26% from $393,000 recorded in 1989. This increase is attributable to expanded natural gas sales in Alberta along with an average crude price increase of $2.10 per barrel for the company's oil production in Saskatchewan.

Included in revenue for 1990 is a gain on sale of a portion of the company's Willmar oil production through a cash/property exchange with a Calgary company. The sale of 40 barrels of oil per day in Saskatchewan for $464,000 more than the company's booked cost for the assets allowed the company to reduce a significant amount of debt during the year and acquire some Alberta natural gas production. This sale was accomplished without decreasing the value of the company's asset base through accepting a property exchange as part consideration for our crude oil production. The natural gas interest acquired in this property exchange significantly increased the company's Alberta natural gas presence while adding net value to the company in excess of the value of the crude oil production sold.

Southward also earned approximately $33,000 in operating fees during 1990 ($5,000 - 1989). This increase is due mainly to new charges to joint venture partners for operation of additional gas wells in Alberta during 1990.

Royalties

Royalties decreased by 41% during 1990 to $77,000 from $131,000 in 1989. This reduction illustrates the effect of a marketing increase of Alberta natural gas production receiving royalty relief from the provincial government.

Expenses

Production expenses increased by 15% during 1990 corresponding to the increase in gas sales this year. Administration costs declined by 9% due mainly to management's successful efforts to reduce the company's dependence on third party consultants. Interest costs decreased by 37% during 1990 from the preceding year due to the retirement of $333,000 of interest bearing debt during the year.

Income

Net income during 1990 amounted to $430,000 ($.15 per share) compared with a loss of $227,000 ($.09 per share) for 1989. Income received during the year was totally protected from income tax by the company's cumulative tax expense pools. Per share amounts were calculated using the weighted average number of shares outstanding during 1990 of 2,927,780 shares

Capital Expenditures

The company invested $465,000 during the year, ($311,000 - 1989), mainly for the acquisition of natural gas properties. The company also maintained an average of a 20% carried (no cost) working interest in the drilling of two wells in North Central Alberta. This drilling resulted in one completed gas well and one abandonment.

Subsequent to year end, September and October - 1990, the company participated in the drilling of two additional wells in North Central Alberta at a net cost of $65,000. Although both these gas tests were abandoned the company owns 4 additional sections in the general area to test at a later date.

During October, 1990 the company invested approximately $75,000 to complete and test its 78% owned (56% after payout) multizone gas well in Cross Lake Alberta. During January, 1991 the company will be spending an additional $225,000 to tie this well into a nearby pipeline for immediate gas sales.

Debt

During the year the company retired $14,000 in trade debt, $108,000 in bank debt and $211,000 in debentures and promissory notes. Debt retirement during the year has reduced the company's debt service allowing us to dedicate new monies to exploration and development. Current bank debt is being serviced under a two year repayment plan and the debentures have been extended or will be retired as they come due in December, 1990 and February, 1991.

Reserve Base

The company increased its proven reserve base during its 1990 fiscal year by 36% to 561,000 equivalent barrels.

Auditor's Report

To The Shareholders of Southward Energy Ltd.

I have examined the balance sheet of Southward Energy Ltd. as at August 31, 1990 and the statements of operations and deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the company as at August 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
January 5, 1991

John Geib
Chartered Accountant

Balance Sheet

	August 31 1990	August 31 1989
Assets		
Current		
Accounts receivable	**$ 102,434**	$ 40,590
Prepaids	**-**	1,500
	102,434	42,090
Fixed (Note 3)	**1,404,026**	1,202,284
	$ 1,506,460	$ 1,244,374
Liabilities		
Current		
Bank indebtedness (Note 4)	**$ 206,811**	$ 261,379
Accounts payable and accrued	**119,310**	133,451
Convertible debentures (Note 5)	**127,800**	200,000
Promissory notes	**-**	50,000
Deffered Revenue	**29,982**	-
	483,903	644,830
Convertible debentures	**-**	88,800
Bank indebtedness (Note 4)	**79,978**	133,462
	563,881	867,092
Shareholders' Equity		
Share capital (Note 6)	**1,632,996**	1,498,029
Deficit	**(690,417)**	(1,120,747)
	942,579	377,282
	$ 1,506,460	$ 1,244,374

On Behalf of the Board

Rw Kiser

Richard W. Kiser - Director

Scott W. Kiser - Director

Statement of Operations and Deficit

	Year ended August 31	
	1990	1989
Revenue		
Petroleum and natural gas sales	**$ 495,486**	$ 392,796
Gain on sale of property	**464,220**	-
Operators fees	**33,225**	5,433
Seismic sales	**7,080**	-
Interest earned	**875**	7,517
	1,000,886	405,746
Royalties	**77,226**	131,315
	923,660	274,431
Direct expenses		
Operating	**72,649**	63,109
Depletion and depreciation	**104,189**	79,663
	176,838	142,772
Revenue from operations	**746,822**	131,659
Other expenses		
Debenture interest	**23,291**	40,000
General and administrative	**232,506**	255,672
Interest and bank charges	**41,307**	37,907
Other interest	**-**	24,748
Loss on disposal of subsidiary	**19,388**	
	316,492	358,327
Income (Loss) for the year	**430,330**	(226,668)
Deficit, beginning of year	**1,120,747**	894,079
Deficit, end of year	**$ 690,417**	$ 1,120,747
Basic earnings (loss) per share	**$.15**	($.09)
Fully diluted earnings (loss) per share	**$.11**	($.09)

Statement of Changes in Financial Position

	Year ended August 31	
	1990	1989
Operating Activities		
Income (loss) for the year	$ 430,330	$ (226,668)
Charges (Credits) to income not requiring cash:		
Effect of exchange rate changes on working capital	-	2,469
Depreciation and depletion	104,189	79,663
Gain on sale of property	(464,220)	-
Loss on disposal of subsidiary	19,389	-
	89,688	(144,536)
Net change in non-cash working capital balances related to operations	(44,503)	(2,914)
	45,185	(147,450)
Financing Activities		
Repayment of debentures	(161,000)	(65,000)
Repayment of promissory note	(50,000)	-
Proceeds of long term debt	-	133,462
Proceeds of promissory note	-	50,000
Repayment of loans	(53,484)	-
Net proceeds of share issuance	134,967	-
	(129,517)	118,462
Investing Activities		
Geological costs capitalized	(69,354)	(72,732)
Effect of exchange rate changes on fixed assets	-	2,339
Exploration and lease acquisition	(465,183)	(311,287)
Government grants	-	8,136
Proceeds of sale of petroleum and natural gas properties	676,458	296,307
Acquisition of office assets	(3,021)	(4,467)
	138,900	(81,704)
Changes in cash during the year	54,568	(110,692)
Cash at beginning of year	(261,379)	(150,687)
Cash at end of year *	$ (206,811)	$ (261,379)

* Cash at end of year consists of short term bank borrowings less cash.

Notes to the Financial Statements

1. Summary Of Significant Accounting Policies

Southward Energy Ltd. is a publicly traded company engaged in the oil and gas business and is incorporated under the Alberta Business Corporations Act. These financial statements are prepared in accordance with generally accepted accounting principles, the more significant of which are:

a) Oil and gas operations

The company follows the full cost method of accounting in accordance with the guideline issued by The Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for, and development of, oil and gas reserves, whether productive or nonproductive, are capitalized in cost centers. Such costs include land acquisition, drilling, geological and geophysical expenses related to exploration and development activities.

Gains or losses are not recognized upon the disposition of oil and gas properties unless such a disposition would change the depletion rate by 20% or more. Gains and losses are recognized upon the disposition of other assets.

Carrying values of oil and gas properties and share capital are reduced by grants received and transferred to flow through shareholders. Other grants earned under various government incentive programs are accrued and applied against the related expenditures.

b) Depreciation and depletion

Furniture and fixtures are depreciated on a basis consistent with that used for capital cost allowance under the Canadian Income Tax Act. Tangible equipment, oil and gas properties and intangibles are depleted on the unit of production method, based on proven reserves of oil and gas as determined by independent engineers and management's estimates. Natural gas reserves are converted to equivalent barrels of oil based upon the relative energy content of each product. In calculating depletion, gross proven reserves (before royalties) are used.

c) Ceiling limitations

The net carrying value of the company's oil and gas properties is limited to an ultimate recoverable amount which is the aggregate of future net revenues from proved reserves and the costs of unproved properties net of impairment allowances, less future operating costs. Future net revenues are estimated using price escalation of 7% per annum (where warranted) discounted at a 15% present worth.

d) Income taxes

The company accounts for income taxes by the tax allocation method, whereby income tax expense is determined as the amount that would be payable if statutory tax deductions for drilling, exploration and property acquisition costs and for capital cost allowances were claimed for tax purposes at the same rate as the related depletion and depreciation provisions charged against income.

2. Income Tax

As at August 31, 1990 the company had losses for income tax purposes in the amount of $185,457 which are available to reduce future years' taxable income. The losses and their respective years of expiry are as follows:

1991	$ 14,363
1992	80,508
1993	90,586

3. Assets - Fixed at Cost

	1990	1989
Petroleum and Natural Gas properties	$ 1,735,272	$ 1,689,495
Furniture and equipment	52,099	49,079
	1,787,371	1,738,574
Less accumulated depletion and depreciation	383,345	536,290
	$ 1,404,026	$ 1,202,284

The company has unused cumulative Canadian oil and gas property expense of $79,000, cumulative Canadian development expense of $141,000, cumulative Canadian exploration expense of $762,000 and earned depletion of $55,000, available to reduce future taxable income.

4. Bank Indebtedness

Bank indebtedness is payable on demand and is comprised of the following:

Treasury Branch loan - revolving	$ 99,411
Treasury Branch term loan # 1	105,000
Treasury Branch term loan # 2	82,378
	286,789
Less current portion	206,811
	$ 79,978

A floating charge debenture in the principal amount of $250,000, a continuing guarantee and postponement of claim to the corporation by the Company's president, and a general assignment of book debts are pledged as collateral against the indebtedness. The debenture carries an interest rate of prime plus 3%.

Term loan # 1 bears interest at prime plus 1% and term loan # 2 bears interest at prime plus 1.5%. The term loans require monthly principal payments of $8,950. Accordingly $79,978 has been classified as long term. The revolving loan requires periodic repayments as determined by Management and bears interest of prime plus 1.5%. Interest on all loans is payable monthly.

5. Convertible Debentures

Prime rate plus 2% debenture A floating charge subordinated to the bank is pledged as collateral for this debenture. Interest is payable quarterly. The debenture is convertible to common shares at a price of 50 cents per share. The debenture is repayable June 30, 1991 if not converted before then.	$ 72,000
10% debentures A floating charge subordinated to the bank is pledged as collateral for the debentures. Interest is payable quarterly. The debentures are convertible to common shares at a price of 50 cents per share. The debentures are repayable February 28, 1991 if not converted before then.	55,800
	$ 127,800

6. Share Capital

	1990	1989
Authorized		
20,000,000 common shares without nominal or par value		
Issued		
3,277,780 shares (1989 - 2,577,780)	$ 1,632,996	$ 1,498,029

On February 22, 1990, 50,000 common shares were issued by the company to a debenture holder for a value of $5,000.

On March 7, 1990, 200,000 common shares were issued by the company to a holdings company belonging solely to the president of the company and his immediate family for a value of $36,000.

On March 16, 1990 a debenture was converted in respect to 50,000 common shares for a value of $25,000.

On June 11, 1990 warrants to various individuals were retracted by the company with warrant holder consent in respect to 225,000 common shares at an exercise price of 20 cents per share.

On June 11, 1990 stock options to the president and vice president of the company were retracted with consent in respect to 140,000 common shares at an exercise price of 20 cents per share.

On June 11, 1990 warrants to various individuals were exercised in respect to 345,000 common shares for a value of $69,000.

On June 11, 1990 the company entered into a flow through share exploration agreement with CMP 1990 Resource Partnership and Company, Limited, (CMP), ("the agreement"), whereby the company may flow through Canadian Exploration Expense on or before February 28,1991 in the amount of $214,286 and issue 356,143 common shares to CMP. Consideration paid to the company by CMP in respect to the above is $150,000 cash and an assignment of CMP's exploration incentive grants earned estimated at $64,286. As at January 5, 1991 the company had requisitioned no funds from CMP under the agreement and therefore no common shares had been issued by the company pursuant to the agreement.

On July 31, 1990 warrants were exercised in respect to 45,000 common shares for a value of $9,000.

On August 3,1990 an employee stock option was exercised in respect to 10,000 common shares for a value of $2,000.

7. Related Party Transactions

During the year the company paid remuneration to officers and/or directors or their nominees in the amount of $116,733 (1989 - $109,000). During the year the company purchased an interest in an oil and gas property from certain employees and directors in the amount of $24,000. These transactions were consummated at fair market value.

8. Discontinuance of American Subsidiary

During the year the company wound-up its American subsidiary. The wind-up has been accounted for by way of a write-off of the remaining assets.

9. Subsequent Events

On October 1, 1990 the company issued 280,000 common shares and 280,000 common share purchase warrants to a holdings company belonging to the president of the company and his immediate family in consideration of $92,400.

Corporate Information

Officers

Richard W. Kiser
President
Scott W. Kiser
Vice President & Secretary Treasurer

Directors

Richard W. Kiser
Scott W. Kiser
Gerald C. Saunders
Ronald W. Ambrose

Head Office

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Auditors

John Geib
Chartered Accountant
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Solicitors

Bennett Jones Verchere
Barristers & Solicitors
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Calgary, Alberta
T2P 4K7

Transfer Agent & Registrar

Central Guaranty Trust Company
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Calgary, Alberta
T2G 0C4

Bank

Alberta Treasury Branch
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Calgary, Alberta
T2P 3K4

Stock Exchange

Alberta Stock Exchange
#300, 300 - 5th Avenue S.W.
Calgary, Alberta
T2P OL3

Trading Symbol

SWN

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